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Chris Skrebowski on OPEC trends and CERA?s new report

By Tom Whipple

(Note: Commentaries do not necessarily represent ASPO-USA's positions; they are personal statements and observations by informed commentators.)

We caught up with Chris Skrebowski for a quick Q&A just as he was preparing to depart for the airport, bound for Australia. He had time to provide quick observations about OPEC?s production trends and CERA?s new report.

POR: We sometimes read statements like this: "About 98 percent of global crude oil comes from 50 nations, of which more than half have already peaked in oil production, including seven of the 11 OPEC nations." Our question: since some of these OPEC nations peaked during the 1970s, then deliberately cut production, then lost production, and are now increasing production with more in the works, isn?t the more important issue "which OPEC nations can increase production, from today going forward, and by how much, and for how long," rather than who peaked when?

Skrebowski: I totally agree with that view. Let?s take a quick look at the OPEC production trends, one by one.

- Algeria can go on squeezing out a little more oil every year until around 2010.
- Libya has big unknowns but can expand fairly gently certainly to 2010 and, depending on exploration success, probably for some time after that.
- Indonesia is in terminal decline but may get the odd year off (production stabilizing).
- Kuwait has a little more increase in their production to come but is likely to peak around 2010-2012.
- UAE/Abu Dhabi probably won?t peak till 2015.
- Qatar?s expansion is overwhelmingly linked to gas liquids and condensates associated with the gas/LNG production. In theory it could expand for some time but this really depends if the North field is as big as is claimed. Qatar is the original all-the-eggs-in-one-basket producer.
- Venezuela is a bit of a mystery. Maintaining conventional oil production requires (because of a high decline rate) a level of drilling and investment that is currently not happening. Expanding heavy oil (Orinoco) requires new projects. Higher tax take and preference for Chinese and Russian companies means no plans have been sanctioned, so even if there is sudden progress there will be no supply impact before 2010/2011. The longer investment is postponed the less chance of expanding supply; remember -- Depletion Never Sleeps. So Venezuelan production is more likely to decline than expand under Chavez?s leadership.
- Iran is clearly struggling. Decline rates in existing fields are high and although there are new projects they?re not coming through fast enough to expand production. I would expect production to remain around current levels with slow decline more likely than expansion.
- Saudi is also clearly struggling. They?re draining rigs and completion engineers from around the world. They?re already up to 100 big rigs and
- expect to get to 120; just two or three years ago they were running a mere 30 rigs. I would guess that Saudi production will now have a saw-tooth profile with jumps in production as reworked/redeveloped fields come on-stream. All the new field developments they tout, with the exception of the 100,000 b/d Nuayyim field, are redevelopment of old fields that have actually been in production several times. All the super-duper new technology will do is extract the last knockings ? fast. I?m with Matt Simmons on the Saudi outlook.
- Iraq is Iraq, but a not-too-cynical guess is no real expansion before 2010, probably holding at around current levels between now and then.
- Nigeria has expansion potential till 2010/2012 when rapid onshore declines are likely to overwhelm offshore gains. However, we have a replay of the Biafran Civil War underway (although we?re too polite to mention it). So far some 800,000 b/d of production has been shut in. So the Nigerian production outlook? Cloudy and unpredictable.

POR: Cambridge Energy Research Associates just came out with a new report?"Expansion Set to Continue: Global Liquids Productive Capacity to 2015"--that projects a 25% production increase between now and 2015. Can you comment? We realize you?re off on an extended trip to Australia momentarily, so you probably haven?t had a chance to look at the full report?

Skrebowski: Very briefly, consider a few of the key facts from CERA?s summary:

- CERA has higher Russian production than the Russian government.
- CERA projects higher OPEC production than even OPEC claims on its website. In terms of some individual fields they have higher output than OPEC claims.
- In 2009 they project production from Uruguay, despite the fact that the Petrobras house magazine (latest issue) says it's a 2011 start-up for a project they've only just sanctioned.
- BP?s start up in Angola by 2009 is another implausibility zone (among many).

As if that was not enough they have global production several million b/d higher in 2011 than the IEA's new Medium Term Market Report (this only goes to 2011). As the IEA is usually criticized (correctly) for being too optimistic, CERA's estimates (which escalate dramatically after 2011) are frankly just plain fantasy.

This raises two immediate questions: First, did CERA just start with the answer -- 110 million b/d in 2015 -- and then work backwards to fit? Second, on whose behalf or behest are they issuing this nonsense?

Chris Skrebowski, with the Energy Institute (London), has edited The Petroleum Review since 1997. He has spent his entire working career in the oil industry, split roughly two-thirds as an oil journalist and one-third as a planner/market analyst within the industry (for BP, Saudi Arabia, etc.).

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